

WASHINGTON, DC REGIONAL QUARTERLY OVERVIEW

METROPOLITAN WASHINGTON, DC OFFICE MARKET

The Metropolitan Washington, DC office market consists of approximately 366 million square feet of office space which spans the District of Columbia, Northern Virginia, and Suburban Maryland markets. Although the nation's economic climate has drastically changed since the first quarter of 2007, the Washington region continues to produce jobs at a rate of about 27,500 per year and holds the second lowest unemployment rate of any other major metro area in the country at 3.3%. The fundamentals of positive job growth, low unemployment rates, and support from the national government remain prevalent in the Washington region, but the area has begun to feel the effects of turmoil in the capital and financial markets spilling over into commercial real estate. In addition to economic issues, the Washington region has experienced significant delivery of new construction projects, many of which were started during a period of lower vacancies and greater absorption.

VACANCY RATE

Direct vacancy rates in the Washington, D.C. metropolitan office market increased from 7.7% at the end of 2007 to 8.2% in the first quarter of 2008. When taking into consideration sublet space, the metropolitan area's total vacancy rate also increased during the first quarter from 8.7% to 9.2%. The District's direct vacancy rate rose from 5.2% to 5.4% over the past quarter. The direct rate in Northern Virginia increased from 8.7% to 9.5%, representing an increase of 9.2% from the previous quarter, and the Suburban Maryland direct rate also increased over the past quarter from 7.4% to 8.3%. Total vacancy experienced a similar trend by increasing in all three jurisdictions. Suburban Maryland witnessed a jump from last quarter's mark of 8.9% to 9.8% in the first quarter, Northern Virginia increased from 9.9% to 10.7% and the District's total vacancy rose from 5.9% to 6.1%.

ABSORPTION

During the first quarter of 2008 the Washington, DC metropolitan area experienced negative 135,943 square feet of direct net absorption and negative 47,857 square feet of net absorption including sublet space. In Northern Virginia, the direct net absorption for the first quarter 2008 was 176,897 square feet while the District realized 121,207 square feet over the same period. The relocation of the Corporate Executive Board from various Washington offices to its new 623,251 square foot home in Arlington impacted both markets significantly. Suburban Maryland experienced negative 434,047 square feet of direct net absorption during the first quarter 2008 with negative 401,631 square feet of the loss occurring in Prince George's County.

CONSTRUCTION

At the close of the first quarter 2008, seventy two (72) office buildings (22 in DC, 29 in VA, and 21 in MD) in the metropolitan region were under construction totaling 12.75 million square feet, of which 23% is preleased. Fifteen buildings (15) delivered during the first quarter 2008 (1 in DC, 12 in VA, and 2 in MD) adding approximately 2.6 million square feet of new supply to the region. A majority of the deliveries during the first quarter (2.13 million square feet) occurred in Northern Virginia with an additional 2.68 million square feet scheduled to deliver during the second quarter.

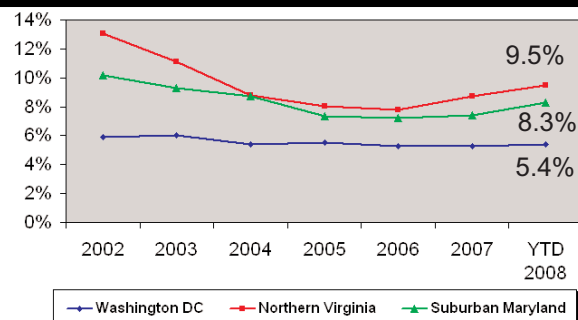
GOVERNMENT

The first quarter of 2008 was a record breaker for Government leasing with over 1.2 million square feet of leases being signed by the Government. The largest in size and scope was the GSA lease of 521,000 square feet for the Department of Justice at Constitution Square in the NoMa submarket of Washington, DC. This lease not only kicks off the project but solidifies NoMa as the leading submarket for new GSA leases. In Virginia, GSA renewed its lease at Skyline Tower for 335,000 square feet for the Social Security Administration, and the Patent and Trademark Office expanded in Shirlington at Randolph Square with a new GSA lease for 170,000 square feet. Back in Washington, DC, the Federal Aviation Administration took 100,000 square feet at 950 L'Enfant Plaza. In Suburban Maryland, GSA signed a new 75,000 square foot lease for the Nuclear Regulatory Commission at 21 Church Street in Rockville.

COMPARATIVE CHART - 1Q 07 vs. 1Q 08

	DC	VA	MD
Direct Vacancy	-	↑9.1%	↑5%
Vacancy Incl. Sublet	↑1.7%	↑12%	↑6%
Direct Net Absorption	↓91%	↓48%	↓12%
Total Absorption	↓96%	↑189%	↑32%

METROPOLITAN DC OFFICE MARKET DIRECT VACANCY RATES



*For more accurate statistics, Lincoln Property Company tracks all buildings 25,000 sf and greater.

WASHINGTON, DC MARKET

SUMMARY

By our calculation the Washington, D.C. office market consists of 724 existing buildings over 25,000 square feet and 123.3 million square feet of rentable space. Direct vacancy in the District at the end of the first quarter was 5.4%, up slightly from the fourth quarter's mark of 5.2%. During the first quarter, Washington witnessed 121,207 square feet of direct absorption, down from the previous quarter's 446,203 square feet of absorption. At the end of the first quarter, average asking rental rates were \$48.56 psf, full service, representing an increase of 6.2% from first quarter 2007. Direct leasing activity increased during the first quarter to 2,046,274 square feet from 1,867,188 square feet during the fourth quarter. The largest lease of the quarter was the Department of Justice leasing 521,000 square feet at Constitution Square in NoMa. The District witnessed the delivery of one new building, 455 Massachusetts Ave, NW, during the first quarter.

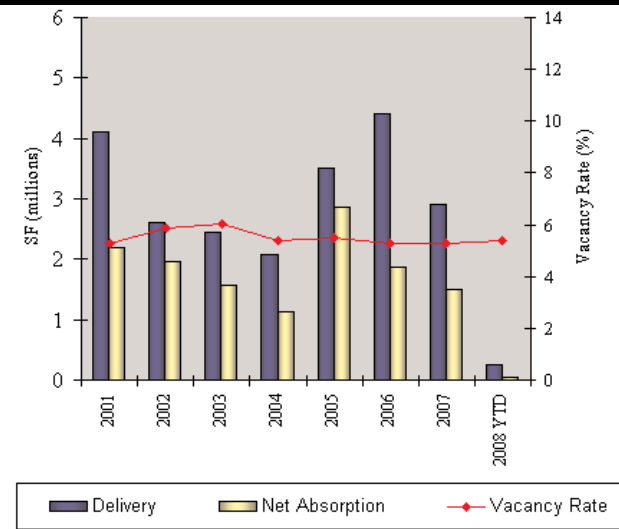
VACANCY RATE

In the District, direct vacancy rates rose to 5.4% from the fourth quarter's 5.2%. Direct vacancy with sublet space increased slightly, from 5.9% during fourth quarter 2007, to 6.1% at the end of the first quarter 2008. First quarter vacancy levels were equal to those of the first quarter 2007. Within the District, the CBD remains the tightest submarket with a direct vacancy rate of 4.6% and a total vacancy rate of 5.5%.

ABSORPTION AND GROSS LEASING

Direct absorption decreased during the first quarter to 121,207 square feet, and net sublet absorption experienced negative 67,635 square feet of absorption resulting in 53,572 square feet of total net absorption for the quarter. This number is down from the 341,422 square feet of total net absorption in the fourth quarter of 2007. One factor significantly affecting the first quarter's absorption was that Corporate Executive Board made its move from the District across the Potomac to Rosslyn. They will now occupy approximately 625,000 sf of the Waterview development at 1919 N. Lynn St. Direct leasing activity was 1,773,269 square feet and gross leasing activity was 2,046,274 square feet. This represents a 179,086 sf increase in total leasing activity from last quarter and puts the District on pace to surpass 8 million sf of leasing activity during 2008. The increase in leasing activity during the first quarter was mainly impacted by the lease by the Department of Justice. The new DOJ location in NoMa brings new excitement to the submarket. In addition to the DOJ lease, the NoMa submarket also saw the announcement of NPR's purchase of 1111 N. Capitol St, NE and the signing of another GSA tenant at 1200 1st St, NE.

WASHINGTON, DC DELIVERIES - NET ABSORPTION - DIRECT VACANCY 2001 - 2008



DC

Direct Vacancy Rate:
5.4%

YTD 2008
Direct Absorption:
121,207 sf

YTD 2008
Total Absorption:
53,572 sf

YTD 2008 Gross
Leasing Activity:
2 Million sf

Average Direct Rental
Rate:
\$48.56 FS



Under Construction:
5.7 Million sf

Pre-leased:
27%

CONSTRUCTION

At the end of the first quarter 2008, 5.7 million square feet of office space was under construction in 22 buildings and 27% of that space was pre-leased, an additional 2.5 million square feet is currently under renovation. During the first quarter of 2008 we witnessed the delivery of one building, at 455 Massachusetts Ave, NW, the 250,000 sf building delivered 100% vacant. In 2008 we anticipate a total of 1.65 million square feet of office space to deliver.

POTENTIAL AVAILABLE SPACE

In addition, to the 8.1 million sf immediately available in the city (of which 923,163 square feet is sublet space), an additional 10 million sf is being marketed as potentially available in the next 24 months, totaling 18,156,782 sf available in the next 24 months. This includes pending lease expirations, new construction, buildings under renovation and proposed buildings which have not yet begun construction.

OUTLOOK

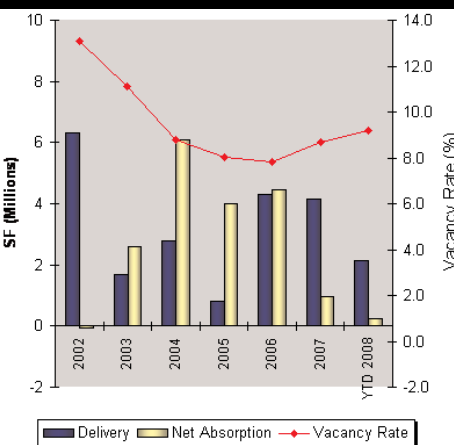
The first quarter 2008 was marked by a sense of uncertainty even as market statistics maintained and actually improved in certain areas. On the one hand, total vacancy inched up from 5.9% at the end of 2007 to 6.1% and First Quarter absorption was an anemic 53,572 sf. On the other hand, gross leasing activity increased by 10% over the fourth quarter 2007 amount to 2,046,000 sf and average rental rates in the city continued their upward trend. With only 1.6 million square feet of new and redeveloped buildings scheduled for delivery in 2008, we expect that the vacancy rate will remain stable through the end of the year. This will likely change in 2009 as almost 6 million square feet of new and redeveloped buildings come on line. The big questions, however, are what impact will the big supply increase have on rental rates and how will demand hold up. Our answer to the first question is that the impact may not be as great as people think. 3.5 million square feet of the new supply is in areas outside of the Primary Business District (PBD), areas such as the North Capitol Hill, Southeast, and Southwest submarkets. Rental rates in these submarkets will be very competitive with each other and perhaps Crystal City and the R-B Corridor submarkets but will not likely have a big impact on Class A space in the PBD. Of the 2.5 million square feet that will deliver in the PBD, 1.3 million square feet are in projects that are redeveloped/replacements of older buildings. These projects displaced existing tenants, usually forcing them into Class B or C buildings, which has been a significant factor in forcing rents in these mid and lower quality buildings higher. As for the demand side of the equation, we will go out on a limb and say that we expect leasing activity in 2008 to be greater than it was in 2007.

NORTHERN VIRGINIA MARKET

The Northern Virginia office market, which combines Arlington, Alexandria, Fairfax, and Loudoun counties for a total of 164.9 million square feet of rentable space, carried the trend of increasing vacancy rates witnessed in 2007 into the first quarter of 2008. At the close of the first quarter, the total vacancy rate for Northern Virginia was 10.7%, which represented an 8.1% increase over the past quarter and a 20% increase since year-end 2006. Although the area continues to be supported by job growth, proximity to the nation's capital, and an influx of federal spending, the Northern Virginia commercial real estate market has felt the impact of a slowing national economy. The Northern Virginia office market has also been weighed down by over two (2) million square feet of new construction delivering during the first quarter 2008 in addition to the over four (4) million square feet which delivered in 2007. Many of these new projects are delivering with little to no preleasing activity compelling landlords to offer significant tenant improvement packages including up to a year of rental abatement to land a lead tenant and compensate for their expense of moving.

At the end of the year, 238 office buildings were marketing contiguous blocks of space 20,000 square feet or greater in Northern Virginia. This represented a 6.3% increase from the 224 buildings hosting the same amount of space at year-end 2007. The number of large blocks of space available in the range of 50,000 to 99,999 square feet also increased over the past quarter from 50 to 55 buildings. In addition, the number of buildings advertising 100,000 square feet of contiguous space or greater increased from 63 to 64 buildings. As for major leases signed this quarter, there were three (3) completed in excess of 100,000 square feet, matching the three (3) transactions finalized for over 100,000 square feet in the fourth quarter 2007. The investment sales market also experienced a dramatic slowdown during first quarter with only six (6) major office transactions closing in Northern Virginia compared with the fifty (50) closed in 2007. The largest investment sale that took place in Northern Virginia during the first quarter was Equity Group Investors' sale of Jefferson Plaza I & II located at 1411 & 1421 Jefferson Davis

N. VIRGINIA DELIVERIES - NET ABSORPTION - DIRECT VACANCY 2002 - YTD 2008



Highway in Crystal City. The two buildings were sold to LOWE Enterprises in January for \$150 million (\$290 psf) and were 96% leased at the time of the sale.

VACANCY RATE

The direct vacancy rate for Northern Virginia increased 9.2% over the past quarter from 8.7% to 9.5% and has increased 22% since year-end 2006. Total vacancy rate, which includes sublet space available, also jumped over the past quarter from 9.9% to 10.7% and has increased 20% since year-end 2006. Following the trend, Class A direct vacancy also increased in Northern Virginia over the first quarter from 8.3% to 9.5%.

ABSORPTION

The direct net absorption in Northern Virginia for this past quarter was 176,897 square feet. When considering sublet space, the total net absorption for first quarter 2008 was 252,719 square feet. Net absorption for the first quarter was largely supported by the 623,251 square feet added with the Corporate Executive Board moving into their new headquarters at Waterview in Rosslyn. Even with this significant boost, net absorption in Northern Virginia is on pace to fall well below the ten (10) year average from 1998 thru 2007 of 3.86 million square feet.

CONSTRUCTION

Construction in Northern Virginia can be broken down into two noticeably different scenarios: inside the beltway and outside the beltway. 77% of the projects currently under construction are located in submarkets outside of Northern Virginia's symbolic dividing line at I-495. At the close of the first quarter, 29 buildings were under construction in Northern Virginia for a total of 4.15 million square feet, of which 13% is pre-leased. Seven (7) new buildings broke ground during the first quarter compared to only three (3) in the second half of 2007. 12 buildings delivered during the first quarter totaling 2.13 million square feet, of which 60% was pre-leased. The first quarter 2008 deliveries included: Carlyle Overlook in the Eisenhower Ave Corridor, Leesburg Commerce Center and Ft. Evans Plaza I & II in Leesburg, South of Market Buildings 1,2,&3 and Reston Eastpointe in Reston, Waterview in Rosslyn, 20116 Ashbrook Place and Ashburn Cross Roads in the Rt. 7 Corridor, and Commonwealth Centre in Rt. 28 South Corridor. 17 buildings totaling 2.68 million square feet is scheduled to deliver in the second quarter 2008.

POTENTIAL AVAILABLE SPACE

In addition to the 19.4 million square feet, which is listed as available immediately, 9.2 million square feet is being marketed as potentially available in the next 24 months, compared to 9.5 million square feet available last quarter. This includes pending lease expirations, new construction, and buildings under renovation.

OUTLOOK

According to the Washington Post, "the turmoil in the credit market...was terrible in August, worse in December, and worse still this quarter." Likewise, vacancy rates in Northern Virginia have followed a similar pattern as leasing activity and net absorption in the area seemed to have slowed just as new construction projects, many of which commenced before the idea of a national recession were a reality, are being delivered. After ten (10) straight quarters of increases dating back to the second quarter in 2005, the average asking rental rate declined from \$31.95 to \$31.88 over the previous quarter. Although this marks only a slight decrease, the rate excludes the significant rental concessions and tenant improvement packages, which are being employed by landlords to keep rates inflated and entice sizable tenants to properties in need of income. Several landlords are also attempting to renew tenants' leases early in an attempt to avoid large vacancy gaps during a time of weakened economic conditions with a wildly speculated recovery timetable. It is not all bad news though, as the Washington area still tends to out perform other major metro areas and holds the nation's second lowest unemployment rate at 3.3%. According to the US Bureau of Labor Statistics, the area's job market grew by 28,100 jobs on an annual basis from this point last year, which was well below levels reached from 2002-2006 but only slightly below the approximately 29,000 jobs added in 2007. It appears that the vacancy rates in Northern Virginia are set to peak later in 2008 before general economic conditions improve and a transition in the government, and hopefully followed by increased government spending to spur a recovery.



VA
Total Vacancy Rate:
10.7%

YTD 2008
Direct Net
Absorption:
176,897 sf

YTD 2008
Total Net Absorption:
252,719 sf

YTD 2008 Gross
Leasing Activity:
2.92 Million sf

Average Rental Rate:
\$31.88



Under Construction:
4.15 Million sf

Pre-leased:
13%

YTD 2008 Deliveries:
2.13 Million sf

SUBURBAN MARYLAND MARKET

SUMMARY

The Suburban Maryland office market (Montgomery and Prince George's County) consists of 824 office buildings or 77.7 million square feet. Since the end of the fourth quarter 2007, the direct vacancy rate increased slightly by .9% to 8.3% and total vacancy rate increased by .9% to 9.8%. Direct net absorption was -434,047 square feet for the first quarter, compared with last quarter which was negative 488,006 square feet. Total net absorption is -354,148 square feet. There are currently 175 existing office buildings marketing contiguous blocks of space 20,000 square feet or greater. One of the largest leases of the first quarter took place in the Bethesda submarket when Microsoft leased 106,000 square feet at 5404 Wisconsin Avenue, a Class-A office building delivering in May of 2009. MedAssurant leased 96,932 square feet in the Bowie/Upper Marlboro submarket at 4321 Collington Road, a 125,969 square foot Class-A office building leased in 2006. The Class A total vacancy rate for this quarter is 11.3%. Overall rental rates are averaging \$28.54 per square foot full service and Class A rental rates are averaging \$30.90 per square foot full service.



MD
Total Vacancy Rate:
9.8%

1Q 2008
Direct Net
Absorption:
-434,047 sf

1Q 2008
Total Net Absorption:
-354,148 sf

1Q 2008 Gross
Leasing Activity:
1.34 Million sf

Average Rental Rate:
\$28.54 FS

Square Ft. Delivered:
255,788 sf



Under Construction:
2.9 Million sf

Pre-leased:
28%

VACANCY RATE

Direct vacancy for the fourth quarter increased to 8.3% compared to the same time last year at 7.9%. When sublet space is taken into account, the vacancy rate increased to 9.8% compared to 9.2% one year ago. Class A direct vacancy also increased to 7.4% from the previous year's rate of 7.1%.

ABSORPTION

First quarter's net absorption for direct space is -434,047 square feet, compared to negative 385,340 square feet at the beginning of the year 2007. When taking sublet space into account, the fourth quarter's total net absorption was negative 354,148 square feet compared to 518,594 square feet for first quarter 2007.

CONSTRUCTION

21 office buildings were under construction at the close of the first quarter for a total of 2,903,152 square feet. Two buildings delivered a total of 255,788 square feet during the first quarter. 9707 Key West Avenue located in the North Rockville submarket, delivered 72,000 square feet in February. This Class A office building delivered 54.9% leased to MRIS, Inc. and was developed by DANAC Corporation. 1 Preserve Parkway is a 183,788 square foot Class A office building located in The Preserve at Tower Oaks. Boston Properties delivered the building in March 2008 16.8% leased and asking rate is currently \$40.50 PSF.

POTENTIAL AVAILABLE SPACE

In addition to the 6.9 million square feet immediately available in Suburban Maryland, an additional 21.5 million square feet is being marketed as potentially available over the next 24 months. This includes pending lease expirations, new construction and buildings under renovation.

OUTLOOK

The foundation for the suburban Maryland commercial real estate industry remained steady throughout the quarter but looks to be growing with a wave of 21 buildings currently under construction with few groundbreakings planned in the near future. An extremely low unemployment rate and an increased amount of construction activity seems to be attractive for relocating businesses and good for the retention of current businesses. There has been a Biotech push in the I-270 Corridor that could to begin to change the tenancy through out the area over the next several quarters but more dramatically over the next several years as potential sites are being evaluated and firms in the industry look to relocate to the corridor. Direct and total vacancies have characteristically increased by .9% the last quarter, deliveries and absorption were minimal. Pushed by preleased deliveries, Montgomery County lead the Suburban Maryland office market in absorption activity. Although average direct rental rates have climbed \$1.36 since 1Q 2007, demand seemed minimal. This could be partly attributed to an ongoing trend in which businesses are willing to pay premiums for better locations and higher class buildings with more amenities. Based on strong market indicators, such as relatively steady vacancy rates, minimal change in absorption, heavy construction activity and continually increasing rental rates, the suburban Maryland office market should remain one of the stronger markets in the metropolitan DC area throughout 2008.

SUBURBAN MARYLAND DELIVERIES - NET ABSORPTION - DIRECT VACANCY 2002 - 2007

